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FM SECSTATE WASHDC  
TO ALL DIPLOMATIC AND CONSULAR POSTS  
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SUBJECT: TALKING POINTS ON IRAQI SUSPENSION OF OIL EXPORTS

11. BACKGROUND: ON DECEMBER 1, IRAQ SUSPENDED OIL EXPORTS WHICH FUND THE UN OPERATED OIL-FOR-FOOD PROGRAM. IT DID SO EVEN THOUGH THE SECURITY COUNCIL AGREED TO ALLOW SHIPMENTS TO CONTINUE UNTIL UN OFFICIALS COULD CONCLUDE A PRICING MECHANISM THAT REFLECTS A FAIR MARKET VALUE FOR IRAQ'S DECEMBER EXPORTS. AT PRESENT, IT APPEARS THAT THE MARKET HAS DISCOUNTED IRAQ'S MOVE. THE PRICE OF CRUDE OIL FOR JANUARY DELIVERY FELL \$1.80 DECEMBER 1 AND CLOSED AT \$32.02 A BARREL.

12. OVER THE PAST YEAR, POSTS HAVE ENGAGED HOST COUNTRIES ON A VIGOROUS DIALOGUE CONCERNING THE OIL MARKETS. WE BELIEVE THAT THIS LATEST IRAQI PROVOCATION COULD IMPACT LESS DEVELOPED COUNTRIES, AND EMERGING ECONOMIES IN A NEGATIVE MANNER IF REDUCED OIL SUPPLIES LEAD TO LARGE PRICE INCREASES OR SIGNIFICANT MARKET INSTABILITY. WE ARE WORKING WITH MAJOR OIL PRODUCERS AND WITHIN THE INTERNATIONAL ENERGY AGENCY TO MITIGATE THE OIL MARKET IMPACT. POSTS MAY DRAW ON FOLLOWING TALKERS, WITH HOST GOVERNMENTS OR IN PUBLIC, AS APPROPRIATE:

Q: IRAQ HAS MADE GOOD ON ITS THREAT TO CUT OIL SHIPMENTS. IS THE U.S. CONCERNED ABOUT THE EFFECT ON GLOBAL MARKETS?

A: IRAQ'S SUSPENSION OF OIL EXPORTS IS AN ATTEMPT TO COERCE THE INTERNATIONAL COMMUNITY. IRAQ SUBMITTED PROPOSED OIL PRICES TO THE UN FOR DECEMBER THAT WERE SIGNIFICANTLY LOWER THAN WORLD MARKET PRICES. THE UN PANEL OF OIL EXPERTS - THE INTERNATIONAL OVERSEERS - RECOMMENDED AGAINST APPROVING THOSE PRICES. THE UN'S IRAQ SANCTIONS COMMITTEE UNANIMOUSLY AGREED. WE CANNOT ACCEPT IRAQ'S USE OF OIL AS A POLITICAL TOOL.

THE UNITED STATES IS WORKING WITH THE INTERNATIONAL ENERGY AGENCY MEMBERS AND MAJOR OIL PRODUCERS, ON AN OIL SUPPLY RESPONSE WHICH, IF NEEDED, WOULD COMPENSATE FOR THE OIL VOLUMES WHICH IRAQ IS THREATENING TO WITHDRAW FROM THE WORLD MARKET. THIS RESPONSE WOULD INCLUDE DRAWDOWNS FROM STRATEGIC PETROLEUM STOCKS AS APPROPRIATE.

THE UNITED STATES AND THE IEA ARE READY TO TAKE ACTION TO ADD SUPPLY VERY QUICKLY IF THE SITUATION WARRANTS.

IRAQ SHOULD NOT BELIEVE THAT A CESSATION OF OIL EXPORTS WILL GAIN IT ANY LEVERAGE WITH THE UNITED NATIONS. WE CALL ON IRAQ TO WORK WITH THE UNITED NATIONS TO QUICKLY REACH AN AGREEMENT ON THE OIL PRICING ISSUE.

Q: WHY HASN'T THE UN APPROVED A NEW PRICING STRUCTURE FOR DECEMBER? WHAT'S THE U.S. VIEW ON THIS?

A: IRAQ SUBMITTED PROPOSED PRICES TO THE UN FOR DECEMBER THAT ARE SIGNIFICANTLY LOWER THAN WORLD MARKET PRICES. THE UN PANEL OF EXPERTS - THE INTERNATIONAL OVERSEERS - RECOMMENDED AGAINST APPROVING THOSE PRICES. THE UN'S IRAQ SANCTIONS COMMITTEE UNANIMOUSLY AGREED. WE SUPPORT THIS JUDGEMENT. IRAQ'S PROPOSED PRICING MAY NOT BE ADEQUATE TO MEET THE HUMANITARIAN NEEDS OF THE IRAQI PEOPLE AND WOULD CREATE THE OPPORTUNITY FOR UNAUTHORIZED PAYMENTS OUTSIDE THE OIL-FOR-FOOD PROGRAM.

WE BELIEVE THIS ISSUE SHOULD BE RESOLVED CONSISTENT WITH  
THE INTENT OF UN RESOLUTIONS, WHICH WERE DESIGNED TO MEET  
THE HUMANITARIAN NEEDS OF THE IRAQI PEOPLE.

13. MINIMIZE CONSIDERED.  
ALBRIGHT